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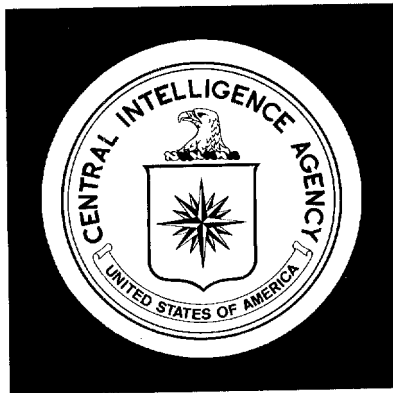
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Weekly Summary

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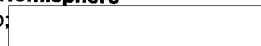


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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary, 

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SECRET**Middle East****LEBANON** 1-2

The Palestinians and their leftist Lebanese allies suffered significant reverses in heavy fighting this week as Syrian forces pressed their military advantage in northern and eastern Lebanon in tandem with Christian assaults on major Palestinian camps in Beirut.

At the same time, Damascus gave new signs of encouragement to Libyan Prime

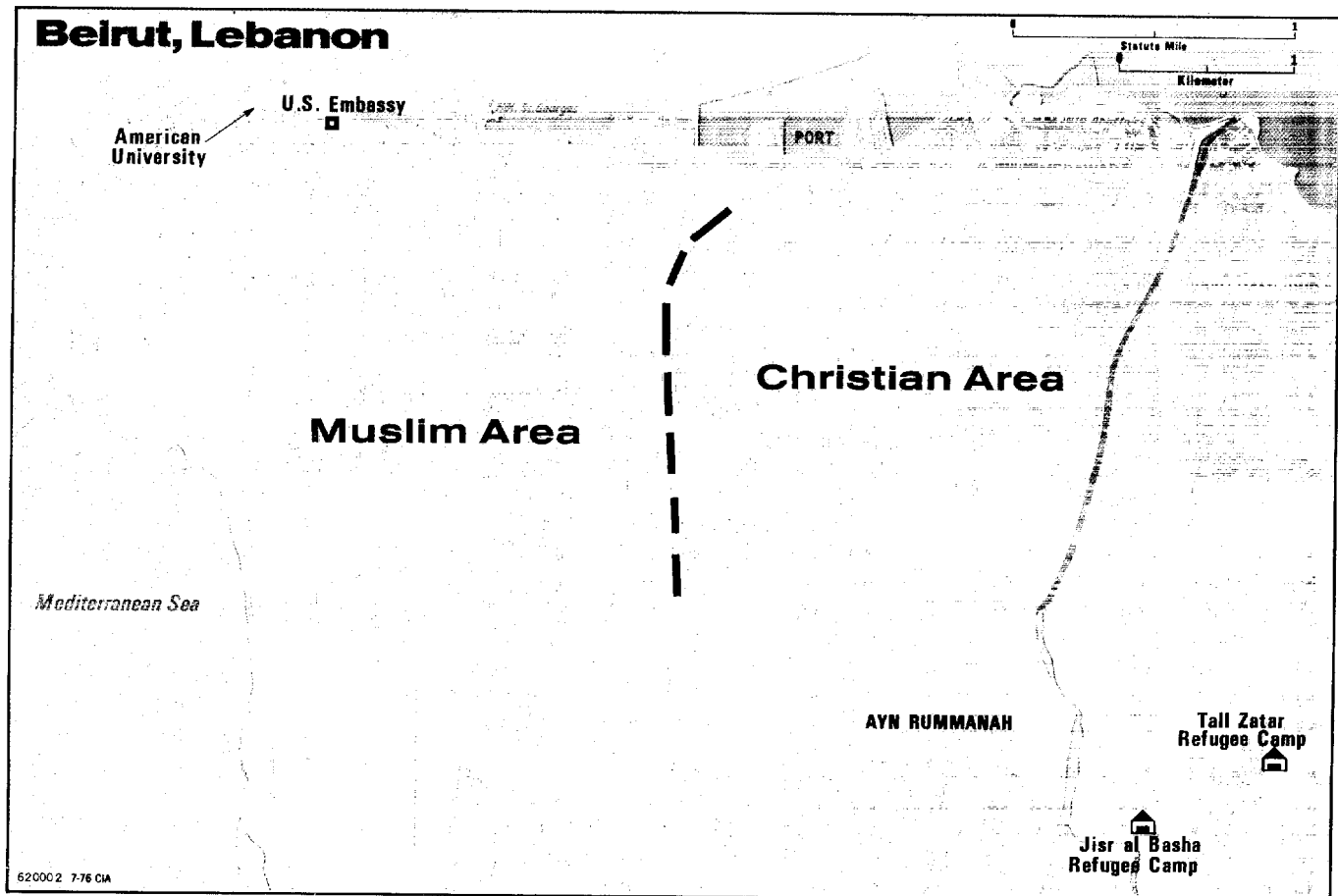
Minister Jallud to continue his mediation mission and to the Arab League to persevere in its peace efforts. These gestures could be seen as part of President Asad's continuing effort to buy time and neutralize pressure from other Arabs for a dilution of Syria's military role. Asad in fact still appeared determined to tame the Palestinians and impose a Lebanese settlement that preserves the Christians' rights, despite the unhappiness of many Syrians and hostile Iraq's retention of a large military force near its border with Syria.

Fighting

The Christians on June 29 captured Jisr al-Basha, the smaller of two Palestinian refugee camps and fedayeen strongholds

to which Christian militiamen laid siege last week; most of the camp's residents apparently managed to escape before its capture. The Tall Zatar camp appeared likely to fall shortly. An unsuccessful attempt by Palestinian and leftist forces to relieve the camps' defenders by breaking through the Christian-inhabited Ayn Rummanah section of the city and their seizure there of the headquarters of the Christian Phalanges Party drew the Phalangist militia into the fray, giving the Christians a decisive edge.

The battle for Tall Zatar has spurred outbreaks of violence throughout Beirut and the surrounding area. Palestinian leftist forces have been conducting diversionary attacks near the port and on

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Pictorial PARADE



Libyan Prime Minister Jallud

Christian positions in central Beirut; fighting spread as far south as the suburb of Kafr Shima. The Palestinians have threatened that the fall of Tall Zatar would be followed by all-out reprisals against Christians in Beirut and elsewhere.

The destruction of the heavily fortified Muslim strongholds in east Beirut and consolidation of Christian control there will virtually complete the de facto partition of the city. The Christians' success has also given them a psychological boost

and made them less interested in an early start of the long-projected round-table negotiations.

The Syrians have offset their modest pullbacks in the Beirut suburbs under the short-lived truce agreement negotiated by Jallud last week by reinforcing troops besieging Sidon, despite assurances to Jallud that they would withdraw from Sidon too.

The Palestinians have charged that Damascus introduced some 4,000 troops plus armor into northern and eastern Lebanon this week. The introduction of fresh Syrian forces is not confirmed, but the Syrians have in fact tightened their grip on the Bekaa Valley, laying siege to Al Hirmil and increasing pressure on Balabakk. Christian forces in the mountains of central Lebanon have, meanwhile, stepped up attacks on the Palestinians and leftists from the west.

Truce Efforts

Jallud seemed at one point early this week to have abandoned his efforts to work out effective cease-fire arrangements and facilitate the entry of Arab contingents for the peace-keeping force sanctioned by the Arab League last month. As of June 30, however, he was still negotiating with President Asad, who has apparently convinced the Libyan that Syria is still willing in principle to withdraw its forces from key locations, including the Sidon area. Jallud has been the sole channel of communication between the Syrians, the Christians and the Palestinian-leftist group.

The very apparent difficulties of the Palestinians in Beirut since last week have evoked, for the most part, little reaction from other Arab states. At midweek, however, the Arab foreign ministers met again in emergency session, largely at the behest of Egypt, which is carrying out with some ostentation its recently assumed role of defender of the fedayeen. The ministers called—without result—for a cease-fire to take effect on July 1 and created a committee to monitor the truce and draw up a timetable for implementing earlier league resolutions on Lebanon, especially the ones pertaining to the Arab

peace-keeping force.

Subsequently, Damascus announced that 1,300 Saudi and Sudanese troops had arrived in Lebanon to carry out the league's peace-keeping mission. Asad is probably confident that these forces—introduced reluctantly by Riyadh and Khar-toum—will not significantly affect Syria's military predominance.

President Asad still faces serious threats as he persists in his Lebanese venture. Apart from the domestic discontent, which apparently includes members of his military, he has to worry about the Iraqi forces on his eastern border. The leaders of the rival Baathist regime in Baghdad are strong supporters of the Palestinians and might be tempted, if the Palestinians appeared to be going under, to order cross-border harassment incursions, if not an outright invasion of Syria. Asad may be counting on Saudi Arabia to keep Egyptian President Sadat off his back and to apply what influence it can muster on Iraq. The Saudis, who would very much like to see Asad restore order in Lebanon, may be helpful to a point. But dramatic Palestinian reverses will make it difficult for even those Arab states who support Syria to remain silent indefinitely.

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terms and implied that Soviet-style communism is ineffective and no longer a viable model for Western parties.

Italy's Berlinguer said the development of Marxism had not kept pace with world realities. This theme was repeated by Spanish party leader Carrillo, who referred to the scientific approach to socialism as a "kind of mysticism and predestination," which the movement had outgrown.

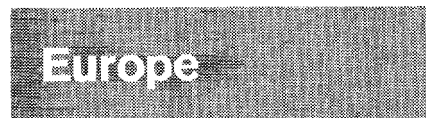
Berlinguer restated his party's intention to follow an autonomous line free of foreign interference and "within the framework" of Italy's alliances—a reference to the party's acceptance of Italian membership in NATO and the EC.

Berlinguer went on to assert that there could be no single leading communist party or state. He said that the conference was not a meeting of an international communist body because "no such body exists and can ever exist," either on a European or world level.

He also recalled the Italian party's criticism of the Soviet invasion of Czechoslovakia. This reference was made to illustrate his point that the principle of non-interference in other parties' affairs does not rule out the right to assess their theoretical and political stands.

French party leader Marchais likewise made reference to the general concern about the "image of socialism"; he claimed it served "common ideals" when the French express views on the divergence of a communist country from these ideals. This was an obvious effort to justify the French Communists' criticism earlier this year of Soviet treatment of political dissidents.

In his statement, Marchais maintained much the same line that had helped to prolong the preparatory efforts for the conference. As far as the French were concerned, he said, such meetings no longer serve a useful purpose. To emphasize the French party's adoption of a more independent stance, Marchais reminded the audience that his party had recently discarded the concept of the "dictatorship of the proletariat."



N. S. EUROPEAN COMMUNISM

The major West European communist leaders at the European communist party conference this week reasserted their independence from Moscow in no-nonsense

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Spanish Communist leader Carrillo, in the most strongly worded speech delivered at the conference, underscored his party's independence from Moscow. He demanded that diversity be accepted and gave a thinly veiled warning that failure to do so would result in a schism.

Presumably with an eye toward his party's efforts to win legalization in Spain, Carrillo asserted that full democracy is essential for all "socialist states" and observed that socialism in Western countries would be brought about by pluralism.

Among the speeches of the East European party leaders, those delivered by Yugoslav President Tito and Romanian President Ceausescu were, as anticipated, the most independent.

Tito clearly aimed his message at Moscow by hammering on the necessity of different roads to socialism. He stressed that Yugoslavia opposes any form of interference in the internal affairs of other parties.

In an allusion to Yugoslav-Bulgarian differences over Macedonia, Tito asserted that the failure of Yugoslavia's neighbors to recognize the rights of national minorities is contrary to human rights and Marxism and undermines peace in Europe.

Ceausescu made clear that Romania will not accept Soviet backpedaling on the conference document. He defended "socialist patriotism" and the role of the nation in international affairs.

In a reference to the Brezhnev Doctrine, Ceausescu called for effective safeguards against interference in Romania's internal affairs. He also advocated the simultaneous dissolution of military blocs as a means of eliminating suspicion.

Like Tito, President Ceausescu declared that the inevitable differences among parties—read, among others, the Soviets and Chinese—should be solved in a "principled spirit" in private, bilateral meetings.

Polish party chief Gierek took a cautious stance in his speech and placed more stress on the solidarity of the move-

ment and less on Poland's role in the communist world. He will make a more important speech tomorrow at Katowice, a key Polish industrial city.

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PORTUGAL

Portuguese army chief Ramalho Eanes scored a resounding victory in the presidential election last Sunday, collecting more than 60 percent of the Popular vote. Socialist Party leader Mario Soares, whom Eanes has said he will name prime minister, welcomed the vote as a decisive mandate for the minority Socialist government he expects to form.

Despite his status as front-runner throughout the campaign, the president-elect is still somewhat of a political puzzle. He first emerged on the national scene as the leader of the conservative "operational" officers who crushed the leftist military rebellion last November. During the campaign, left-wing critics seized on his rightist connections and asserted that, as a strict disciplinarian, he might be tempted to take over if the party government did not meet his approval.

More conservative military and party backers, in contrast, were taken aback by Eanes' endorsement during the campaign of agrarian reform and a Portuguese brand of socialism. In the end, Eanes won because of the prevailing view that he was the best candidate to ensure the support of the military for Portugal's still fragile democratic institutions.

Eanes has already made it clear he will tolerate no attempts to undermine these institutions. By serving simultaneously as president and armed forces chief of staff, he will have sufficient power to back up that statement.

His admonitions are most likely aimed at discouraging the Communists—who retain substantial influence among labor—from mobilizing worker protests against the economic measures the new

government will be forced to take. The Communists were embarrassed by the election results, in which their candidate, Octavio Pato, ran a poor fourth with only 8 percent of the vote.

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Far left candidate Otelo de Carvalho, who won 17 percent of the vote, may also be contemplating agitation against the new government. He apparently regards his second place finish as a mandate to revive his plan for a government based on far left-wing grassroots organizations. Having outpolled the Communists, he may try to portray himself as the leader of the Portuguese left.

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UNITED KINGDOM

UK officials at an EC Monetary Committee meeting have acknowledged the possibility of additional borrowing from the International Monetary Fund this year. The intention would be to finance the repayment of any future drawings the UK may make against the \$5.3 billion standby credit it received from most major industrialized nations and the Bank for International Settlements. The credit expires on December 9.

Publicly, the Labor government has tried to de-emphasize the need for additional borrowing from the Fund. It does not want to stir up adverse political reaction to the conditions which the Fund can be expected to attach to a new loan.

As the UK economy recovers, the government presumably hopes to be in a better position to accept the economic constraints accompanying further Fund assistance. We expect that a further Fund drawing will require cuts in public spending and possibly as much as a \$3.6-billion reduction (17 percent) in public sector borrowing.

British officials also revealed that combined private and official sterling balances fell by \$1 billion during April and May. This compared with a first-quarter 1976 drawdown of about \$160 million.

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ITALY

23-26

Italian party leaders are examining possible formulas for breaking the political deadlock following the inconclusive parliamentary election on June 20-21. Serious bargaining will not begin until after the opening of parliament on July 5 and may produce a minority Christian Democratic government as an interim solution.

Although the Christian Democrats continue to talk in terms of another coalition with the Socialist Party, there are signs that they are inclined to form a caretaker minority government to give other parties, especially the Socialists, time to sort out their post-election options.

many new faces would be brought into such a government to help freshen the Christian Democrats' image. There has been some speculation that Prime Minister Moro will step down to become president of the Chamber of Deputies and be succeeded by Interior



Christian Democratic leader Zaccagnini

UPI

Minister Cossiga—a relative newcomer in higher party circles.

Under the minority formula, the Christian Democrats would seek the support of the other parties, except for the neo-fascists, on a limited number of key issues—particularly in the economic field. The Christian Democrats—who hope that the Communists will act “responsibly” by not opposing the government program—plan to insist on a clear distinction between the roles of the majority and the Communist opposition. This would not, however, preclude open consultation with the Communists to work out legislative compromises. Such consultations have been held behind the scenes with increasing frequency in recent years.

The Socialists continue publicly to reject any formula that fails to at least include the Communists in the government's working majority in parliament. Privately, however, some Socialist leaders have hinted that a stopgap minority government might be acceptable if agreement can be reached on certain programs.

The Socialist Party remains the linchpin in Christian Democratic efforts to form a coalition excluding the Communists. Some Socialist Party insiders say it may take several months to overcome factional differences on this issue. The factional squabble may be intense and could threaten party secretary Francesco De Martino's position.

The Communists, meanwhile, are leaving the initiative on government proposals to the Christian Democrats. The Communist Party directorate, which met last week, confined itself to stating the party's readiness to assume responsibility “in accordance with its political weight.” There are indications that the party is willing to accept a formal consultative relationship with the government, particularly if it could obtain the speakership of one of the parliamentary chambers or key committee chairmanships.

Communist Economic Proposal

Luciano Lama, secretary general of Italy's largest labor confederation, the

Communist-dominated General Italian Confederation of Labor, has indicated that his organization, at least, is prepared to cooperate in a post-election economic stabilization program. He recently told an interviewer for a Socialist newspaper that Italian workers are prepared to make sacrifices to ensure economic stability.

Lama advocated a mild type of incomes policy in exchange for tax and credit policies favoring employment. He urged applying cost-of-living wage adjustments only to earnings below a fixed limit, tightening controls over worker absenteeism, and re-examining seniority step pay hikes and terminal pay bonuses.

Lama also called for the rationing of gasoline, meat, and luxury imports. He insisted on greater diligence in tax collection to reduce evasion by upper income groups and streamlining the civil service to cut public expenditures.

Most of Lama's demands are consistent with established Communist Party policy but the offer to curb cost-of-living wage adjustments represents a sharp break from previous trade union positions. Communist Party chief Berlinguer repeatedly has demanded that the government make no attempt to alter the price-wage mechanism. Wage discipline, he contends, can come only from the unions themselves.

Any significant reduction in cost-of-living pay adjustments would be viewed with relief by Italy's foreign creditors, most of whom have repeatedly urged their elimination as a required first step to ease Italy's inflation rate and balance of payments gap. The International Monetary Fund may make curbs on such adjustments a condition for further Italian borrowing.

With Italy's trade unions about to resume their triennial wage negotiations, Lama's professions of labor's willingness to be reasonable will soon be put to the test. The pre-election ban on strike activity—instituted by the General Italian Confederation of Labor to ease voter tensions—has been lifted, and 1.2 million farm workers have already staged a nationwide walkout.

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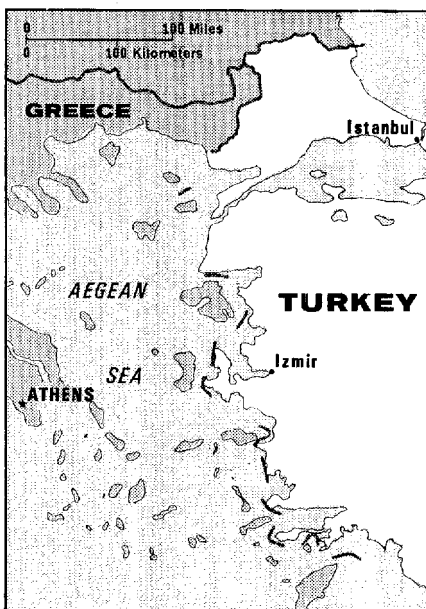
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GREECE-TURKEY

Tensions between Greece and Turkey are growing as preparations near completion for the sailing of a Turkish seismic research vessel into the contested Aegean Sea. The exploration will take place in an atmosphere soured by the failure of Greek and Turkish negotiators to make any significant progress in talks last month in Paris and Bern on the range of Aegean questions dividing them.

Turkish officials announced last week that the vessel—the Sismik I—would enter the Aegean on July 7. Other reports suggest that Sismik I—which has been in drydock for refitting—will only be engaged in a shakedown cruise when it leaves Istanbul on July 7 and is unlikely to be ready to operate in the Aegean until the end of July or early August.

Ankara is sending the ship out to assert its claim to a share of the potentially mineral-rich Aegean seabed and to offset opposition charges that the Demirel government has not pressed Turkish rights in the Aegean with sufficient vigor. The government has been vague, however, on just where it intends to conduct its seismic explorations.



Ankara has repeatedly insisted on its right to operate on the high seas, but there are indications that it may choose to make only symbolic thrusts into disputed waters in the hope of minimizing the danger of a Greek reaction while obtaining the desired domestic impact.

Athens will take a dim view of any Turkish incursions into the disputed waters. Last week, the Greeks expressed concern to US officials that Turkish air exercises scheduled for July 4-13 off Izmir might be timed to coincide with activities of the Sismik I.

Turkish officials have recently assured the US embassy that Ankara intends to follow a less provocative course than the Greeks fear. According to a Turkish naval officer, the Turks have no plans to provide the Sismik I with a military escort.

Western Hemisphere

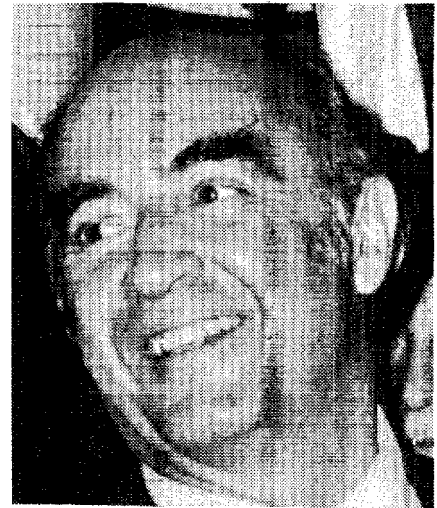
MEXICO 36

Jose Lopez Portillo is unopposed in the election on July 4 for a six-year presidential term. Even if he had opposition, the pervasive power and proven voter appeal of the ruling Institutional Revolutionary Party would assure him victory. Lopez Portillo will assume office December 1.

The certainty of his victory may keep many of the 27 million registered voters from going to the polls. A significant number of Mexicans alienated by the authoritarianism of the PRI may also stay away in protest or purposely cast invalid ballots. A high rate of abstentions would be embarrassing.

For appearances' sake, the PRI would have preferred to have an opponent, but its only serious opposition, the conservative National Action Party, could not

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Jose Lopez Portillo

agree on a candidate in time to make the filing deadline. Two other parties, the Popular Socialist Party and the Authentic Party of the Mexican Revolution, both pawns of the PRI, endorsed Lopez Portillo. Also up for election are members of both houses of Congress and one governor.

Although the PRI does very well at the polls in all areas of the country, its standing in the large cities has slipped in recent years. In 1973, when elections for the lower house were last held, the PRI obtained only 51.7 percent of the 439,400 votes cast in the Federal District. These results were a surprise to the party, leading to the appointment of new leaders to top party posts. The opposition, particularly the National Action Party, will probably regain a few seats in the Federal District and in other metropolitan areas, but the PRI will as before capture most of the congressional seats.

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Far East

PHILIPPINES 51-52

The Philippine government's proposals for new arrangements governing American use of military bases reflect President Marcos' more nationalistic posture in foreign policy. He apparently intends to press for an agreement that will give him the option to phase out the US military presence within the next ten years.

In responding to post-Vietnam trends in East Asia, Marcos is moving toward assigning higher priority to alignment with his partners in the Association of Southeast Asian Nations and with the Third World than to maintaining traditional political and military relations with the US. Marcos defined his new priorities in his independence day message on June 12, citing a "new dimension to our independence" that will emphasize "freedom" in foreign relations as well as in internal affairs.

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In discussing the implications of his new foreign policy stance in his June 12 speech, Marcos disavowed any intention to "embark on a rash course of complete self-reliance in defense." He emphasized, however, that the principle of "sovereignty and extraterritoriality are non-negotiable issues."

In translating this principle into specific provisions, the Philippine draft agreement imposes highly restrictive limitations on operational, logistic, and administrative activities of US forces:

- US forces would be confined to the use of Clark Air Base and Subic Bay naval station;
- Prior approval of Philippine base commanders would be required for

most US flights, routine exercises, and port calls;

- US combat operations would also require prior approval, and nuclear and toxic chemical warfare weapons would be prohibited;

- The authority of US commanders over US military and civilian personnel and equipment would be circumscribed by requiring that US activities conform to Philippine laws and regulations.

The proposals also limit the new base agreement to five years, with provision for extension for only an additional five years. Either party could terminate the agreement upon written notice of one year.

Some of these highly restrictive limitations almost certainly were inserted for bargaining purposes. President Marcos is anxious to secure increased US financial and material support for his armed forces and defense industries and is unlikely to press his more extreme demands. He probably will eventually be prepared to ease some of the tougher limitations on US facilities, but he will insist that the final agreement contain language that will validate his claim to complete "sovereignty" over military bases used by US forces.



President Marcos

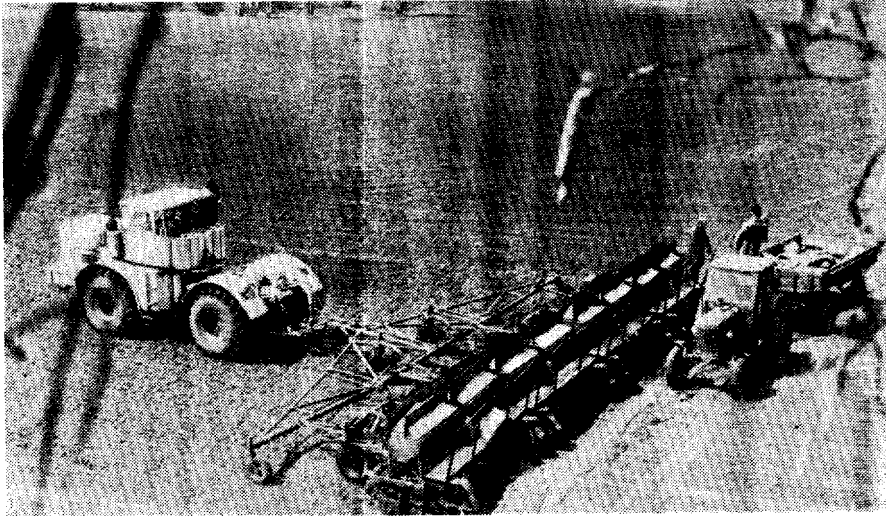
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Soviet workers during recent wheat sowing operation in Novosibirsk



WORLD GRAIN 54-58

Our initial forecast of 1976-1977 world grain production, excluding rice, is for a record 1,045 million tons, 6 percent above the 1975-1976 figure. This compares with the US Department of Agriculture's latest estimate of 1,062 million tons.

What is expected to be a better Soviet harvest accounts for nearly three fourths of the increase, more than offsetting a smaller West European crop. In turn, global import demand should be weaker, permitting small additions to stocks of major exporters and helping to ease the tight supply situation that has prevailed since 1973.

We estimate world wheat production for 1976-1977 at 365 million tons, up 4.5 percent over 1975-1976. Consumption will rise less rapidly than production, despite increased feed use in the USSR and Europe.

Global import demand for wheat will be down 7 million tons, with most of the decrease occurring in the Soviet Union,

India, and Brazil. Larger supplies in all the major exporting countries point to strong competition during the coming year.

Foreign demand for US wheat next year is likely to be about 27.7 million tons, the smallest in five years. This low level means US carryover stocks will increase 37 percent to more than 20 million tons by July 1, 1977.

Although feed-grain supplies, especially corn, have tightened in recent months, we expect some easing in the new crop year beginning October 1. World feed-grain production in 1976-1977 will be up 8 percent to 680 million tons because of larger US and Soviet harvests. Our latest forecast of Soviet grain prospects implies a 45-percent increase in feed-grain output, including rye, over last year's poor harvest.

The recent strong import demand for corn is not expected to continue into the coming marketing year. We estimate global demand for corn imports will be down 8 percent from the 54.3 million tons traded in the current year, including a 5-million-ton cut in Soviet imports.

Drought conditions have changed our earlier prediction of lower European Community corn imports to one of increased imports. We also estimate that

Japan will boost corn imports to support an expanding livestock program.

Foreign demand for US corn will drop 6.8 million tons in 1976-1977, to about 35.4 million tons. A stock addition of nearly 10 million tons is expected, raising carryover stocks to 18.8 million tons by September 30, 1977.

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TIN COUNCIL 54-62

The International Tin Council on June 30 approved another five-year accord designed to stabilize prices and supplies through management of a buffer stock. Bolivia's last-minute notification of its intention to ratify allowed the agreement to take effect provisionally on July 1.

Bolivia—the world's second largest tin producer—fought unsuccessfully for increasing the council's floor and ceiling prices, hoping to protect its inefficient, high-cost, and strike-plagued tin mining industry. World tin prices that are now well above Bolivia's break-even point of \$3.10 per pound presumably weakened La Paz's case. The Bolivians also were unhappy with the lifting of producer export controls.

La Paz and other producers, who have long complained about the council's leadership under a Westerner, apparently were successful in gaining agreement that an Asian would head the council for the next term. A compromise probably will be reached to place the consumer-supported candidate, an Australian, in a top advisory position.

Additional wrangling is expected, and the pact will collapse by the end of the first year if the members fail to ratify the agreement. Bolivia probably will be the main source of contention, again pressing for a hike in council floor and ceiling prices and for obligatory financial contributions from consumers to the buffer stock. At present, such contributions are voluntary. Meanwhile, the US has stated it will not contribute during the first year.

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Having backed off from food price increases, party chief Gierek now faces the difficult task of restoring the authority his regime has lost and finding more acceptable solutions to the economic problems that prompted the proposed price hikes.

N.S.

Poland: The Food Price Upheaval

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Polish workers last week again demonstrated their political power by forcing the regime to withdraw its proposed stiff price increases on basic food items. Party chief Gierek now faces the difficult task of restoring the authority his regime has lost and finding more acceptable solutions to the serious economic problems that prompted the proposed price hikes.

The Aborted Program

The proposed price increases for meat, vegetables, dairy products, eggs, and sugar affected about one fifth of personal consumption in Poland. Meat prices alone would have gone up an average of 69 percent, total food prices an average of 40 percent, and the cost of living 15 percent.

In addition, the government had hoped to stimulate food deliveries to the market by increasing procurement prices, which were to have risen by 19 to 20 percent for livestock. The accompanying wage package would have favored low-income workers (a 20-percent raise) at the expense of the middle- and high-income groups (perhaps as little as 10 percent).

Worker reaction to the announcement of the price increases was almost immediate. On the morning of June 25, workers at the Ursus tractor factory outside Warsaw blocked entrances to the plant, roughed up supervisory personnel, tore down Polish and communist flags, and stopped all trains on nearby rail lines.

A party headquarters in Radom—60 miles south of Warsaw—was burned after a peaceful protest demonstration turned into a riot. Police did not fire on the demonstrators and apparently made no arrests.

There were rumors in Warsaw of sit-ins, strikes, and railway sabotage throughout the country.

US embassy also reported that a general strike was scheduled to take place on June 26 and 27. Work stoppages did occur in at least 80 factories. The police were obviously under strict orders not to confront the striking workers and to avoid bloodshed.

Late in the afternoon of June 25, Premier Jaroszewicz went on television to announce that the government was withdrawing its proposals. He justified the decision primarily by claiming that Polish workers had presented many suggestions for amending the proposals and that the government would need several months to consider them. His announcement apparently ended the disruptions.

Rationale for the Increases

Until this year the Gierek regime had delivered on its promises of a higher standard of living. Under Gierek's liberal wage policies, real per capita consumption has risen an average of 7 percent a year since 1970, an exceptional improvement. The growth in real personal income averaged 9 percent, the difference going into savings deposits or currency holdings.

The marked increase in meat consump-

tion, from 53 kilograms (117 pounds) per capita in 1970 to 69 kilograms (153 pounds) in 1975, was of particular importance to Polish workers.

A 9-percent average increase in meat production in the period 1971 to 1974 was encouraged by abolishing compulsory deliveries to the state and by raising meat procurement prices. This increase in production was possible only because of a combination of good weather and large grain imports.

The fragility of the fodder base was demonstrated when excessive rains in 1974 led to poor fodder crops and the widespread slaughter of hogs. Hog numbers dropped by 5 percent. By March 1975, the decline in meat supplies led to disturbances in several Polish cities.

Gierek acted quickly, rushing supplies to troubled areas, cutting meat exports, raising imports, and going to the population in a series of sympathetic speeches. These steps proved to be only a stopgap; Gierek again had to take emergency measures in October 1975 in response to another crisis.

Meeting popular expectations of ever higher meat supplies has been very expensive for the regime. A continuation of the 1971 freeze on retail meat prices in the face of a steady rise in prices paid producers has sent government subsidies soaring. Food subsidies more than quadrupled between 1971 and 1975, reaching 14 percent of budget outlays in 1975, compared with less than 6 percent in

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1970. At the same time, higher domestic consumption of meat has held meat exports below planned levels and rising world grain prices have pushed up the cost of imported feed. The meat policy thus contributed to record hard-currency deficits.

In 1975, Polish leaders debated whether to curb grain or equipment imports and opted for the former. Hard choices were necessary because of the deteriorating balance-of-payments position. Massive borrowing to finance purchases of Western machinery coupled with the flagging of exports to the recession-hit West raised Poland's hard-currency debt from \$1.9 billion at the end of 1973 to \$6.9 billion by the end of 1975. Gierek decided to forge ahead with the industrial program and resigned himself to the need for higher retail prices to slow increases in consumption of meat and certain other highly subsidized foods. The major question was the size and timing of the price increases.

Picking up the Pieces

The decision to go ahead with the price hikes was apparently reached only recently. Reporting over the past several years has indicated that Polish economists have generally advocated price increases, while politicians feared public reaction. Warsaw may have decided to implement the hikes immediately instead of waiting for the August vacation period because consumers were beginning to hoard such non-perishables as sugar.

In an initial attempt to recoup some of its prestige, the regime staged demonstrations over the weekend in support of the price increases. Such efforts, however, cannot conceal the fact that the regime and to some extent Gierek himself have suffered their most serious reverse since coming to power. The regime misjudged how the population would react to the large increases. There are numerous indications that people expected, and would have grudgingly accepted, increases of 20 to 30 percent. The average Pole, however, would not tolerate increases of two or three times that amount.

There will almost certainly be per-



Premier Jaroszewicz

sonnel shifts to create a scapegoat. Premier Jaroszewicz seems particularly vulnerable. Some of the young, aggressive economists and managers who pushed for the increases may also find themselves shunted aside. Although Gierek must inevitably shoulder some of the blame, his position seems secure at present.

He will probably soon seek ways to shore up his personal prestige, perhaps by quashing any calls for retribution against the workers who began the strikes. His failure thus far to take to the hustings—as he usually does—suggests that he is somewhat unsure of himself.

More Trouble Ahead

After the excitement of last week dies down, the regime will once again have to

seek solutions to the serious economic problems that provoked the price increases.

With retail prices fixed at a level far too low in relation to demand and farm prices too low to stimulate marketing, shortages will become even more prevalent, and consumer dissatisfaction will increase. Meat and other foods will probably be increasingly diverted from state stores to the free market. The regime will be anxiously awaiting the crop results in September.

In the meantime, the Poles will undoubtedly seek additional supplies of grain and meat. They had already planned to import 3.3 million tons of grain from the US this fiscal year, much of it under credits from the US Commodity Credit Corporation, and will probably now return for additional supplies and credits.

They will probably shop for meat in East European markets, as in 1975. Moreover, Soviet concern about potential instability in Poland may make Moscow receptive to a Polish request for hard-currency credits, or possibly grain.

The Polish crisis will also make the Soviet and other East European governments even more cautious about increasing their own food prices, even though they also are confronted with inadequate meat supplies and rising budget subsidies.

The Poles will still be forced to raise prices eventually, but they will wait at least several months; they then are likely to choose a series of smaller increases. The regime presumably will also have to restore the hikes in procurement prices so that farmers will rebuild the fodder base and livestock herds.

The need to increase meat and grain imports casts some doubt on Poland's ability to control overall imports, thus further weakening its credit rating. Western bankers have already been concerned about Poland's ability to handle further borrowing. Moreover, one of the underpinnings of Poland's credit rating has been its political stability, which may now be more open to doubt.

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President Machel's nationalist government appears to be firmly established after a year of independence. It faces a host of political and economic problems, however, at a time when it is becoming increasingly preoccupied with support for the Rhodesian insurgency.

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Mozambique: First Year of Independence

25X1 [redacted] Mozambique completed its first year of independence last week.

In contrast to Angola, there was a dominant nationalist organization in Mozambique, the Front for the Liberation of Mozambique, which permitted a much more tranquil transitional period to independence and the establishment afterwards of a widely accepted government.

Tribal and regional tensions exist beneath the surface, however, and President Samora Machel's government faces serious economic problems. There is already evidence of restiveness in parts of the country over the regime's efforts to regiment and indoctrinate the population.

Machel is clearly the dominant figure in Mozambique. Despite occasional rumors of dissension within the leadership, we have no hard evidence of any serious splits among senior members of the regime. The President has been confident enough of his position to make several trips out of the country in recent months.

Crackdown on Opponents

The government has been slow and inefficient in setting up administrative machinery, but it has wasted no time trying to organize and indoctrinate the population in support of the Front—the only legal party—and President Machel. Government-controlled media constantly preach “vigilance” against real or imagined enemies of the state, who are said to

be backed by “imperialism” and “capitalism.”

Shortly after independence, a special police force was created with broad powers to arrest and detain suspected opponents of the government. A crime has become virtually anything the police say it is, and thousands have been jailed.

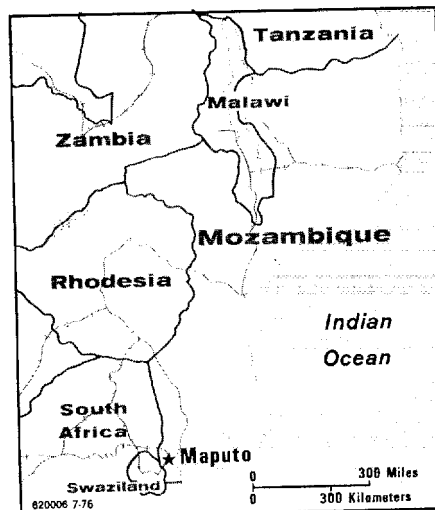
Although the country has been largely calm during the past year, there was an uprising last December in Maputo by several hundred members of the police and the army. The dissidents apparently were reacting to an announcement by Machel of a crackdown on corruption and political agitation among the military and police. Loyal forces restored order after

two days of disturbances in the capital.

[redacted] troops belonging to the Makonde ethnic group instigated the disorders. The Makonde were the backbone of the Front's fighting force during the insurgency against the Portuguese, but they have been underrepresented in the regime since independence.

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Machel in effect acknowledged a problem in the north when he charged, in a speech last February, that “rumor-mongers” were trying to thwart government programs in the north. The President called for a high-priority redevelopment effort in the area.

Economic Problems

Mozambique has considerable economic potential, but the disruptions caused by the transition to black rule and the doctrinaire socialist policies pursued by Machel have disrupted the economy. Urban unemployment is high, and there have been occasional food shortages.

The departure of the bulk of the country's white population, including many with needed skills, has hurt the economy the most. Out of a pre-independence

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President Machel meeting with Soviet President Podgorny (r) and Foreign Minister Gromyko in Moscow, May 1976

white population—mostly Portuguese—of 200,000, fewer than 30,000 remain. Most of the country's doctors and many technicians who managed the ports, railroads, and businesses have left. The Machel regime has made an effort to stem the white exodus, but it is continuing, and the number of whites in Mozambique could be fewer than 10,000 within a few months.

Mozambique's closure of its border with Rhodesia last March in compliance with the UN sanctions program has added to the economic problems. The flow of Rhodesian exports over Mozambique's rail system and through Mozambican ports had provided Mozambique with some \$40 million annually—between 10 and 15 percent of its foreign exchange earnings.

Thousands of rail and port workers have lost their jobs, and Mozambique no longer imports Rhodesian corn, beef, and poultry. Food shortages have become more of a problem in some areas.

The Machel regime, on the other hand, has quietly maintained important

economic ties with South Africa. More than 80,000 Mozambican workers are employed in South African mines and earn about \$100 million annually; this is Mozambique's largest source of foreign exchange.

More than 7 million metric tons of South African goods are exported through Mozambican ports annually. The South African government's interest in maintaining the relationship is reflected in repeated offers to provide technicians to help maintain the port of Maputo. Mozambique would almost certainly be reluctant to allow an increased South African presence unless there was no other way to keep the port open.

Foreign Affairs

Mozambique is a front-line state on the Rhodesian problem. Machel began working in 1974 with the presidents of Tanzania, Zambia, and Botswana and in cooperation with South African Prime Minister Vorster for a peaceful transition to black rule in Rhodesia.

By late last year, however, Machel and Tanzanian President Nyerere had become

convinced that only a military solution would work. Machel has since taken the lead in supporting the Rhodesian nationalist insurgents.

Most of the guerrillas are based in Mozambique, where they receive training and maintain operational bases from which they launch frequent small-scale attacks across the long border between the two countries.

Mozambique's role in the war has left it vulnerable to Rhodesian retaliatory raids. Rhodesian cross-border incursions and air strikes have inflicted casualties on Machel's forces and damaged some Mozambican installations as well as guerrilla staging bases. Mozambique's army is being expanded, but is poorly trained and inefficient compared to the Rhodesians.

Mozambique is looking increasingly for foreign help to meet defense and economic needs. It has received pledges of more than \$200 million in economic aid since independence, more than half of it from Western sources.

Machel has turned to China and the

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USSR for military aid and technical help.

When Mozambique became independent, relations with China were considerably warmer than they were with the USSR. The Chinese had been heavily involved in training the Front's guerrillas during the insurgency against the Portuguese.

Although Soviet military assistance was also important, Machel and his colleagues seemed suspicious of Soviet motives and appeared to have been put off by heavy-handed Soviet methods in making demands on Mozambique during the transitional regime and the early months of independence.

Relations with the USSR began to improve late last year, mainly because both countries were strongly supporting the Popular Movement in Angola. The warming trend has become more pronounced in recent months and was highlighted by recent visits to Moscow by Defense Minister Chipande and by Machel himself.

Although several modest economic agreements were concluded during Machel's visit, he clearly was seeking sophisticated technical and military assistance unavailable from China. In the

communique issued at the end of the visit, the Soviets pledged to strengthen Mozambique's defense capabilities.

At present, there are probably fewer than 50 Soviet military advisers in Mozambique, but the number is likely to grow as Soviet military hardware arrives.

Perhaps as many as 250 Cuban military advisers are in Mozambique. Advisers from both Cuba and the USSR apparently are helping to train the Rhodesian guerrillas.

Despite the growing Soviet role, Machel is trying to reassure the Chinese that he is not tilting too far in Moscow's direction. There are now about 100 Chinese civilian and military advisers in Mozambique, and Machel wants them to stay.

Mozambique's ties with Portugal have

been soured by friction over the return home of many Portuguese disenchanted with life under the Machel government. The Mozambican leaders, moreover, have close ties with the Portuguese left and have been unhappy with the recent political trend in Lisbon away from the left. Machel hopes to persuade some Portuguese technicians to remain in Mozambique, and negotiations between the two governments to improve relations are under way.

US relations with the Machel government are colored by the US association with Portugal during the insurgency. Since independence, the US has been linked with "imperialism" as the prime target of Mozambique's government-controlled media.

Official relations, however, have been cordial, and in recent discussions between US and Mozambican officials concerning US economic assistance the Mozambicans seemed eager to receive US aid.

Mozambican leaders welcomed Secretary Kissinger's statement last April on US policy in Africa, although they obviously would like the US to go further in support of black rule in Rhodesia.

The newly independent island republic is expected to be officially nonaligned, but not unfriendly to the West.

73-76 Seychelles: Independence

The Seychelles, a British crown colony in the Indian Ocean, became an independent republic on June 29. The archipelago, with a population of 60,000 on some 80 islands, has had internal self-government since 1967.

Under the independence agreement

negotiated last winter, three small islands that London detached from the Seychelles in 1965 and included in the British Indian Ocean Territory are being returned to the Seychelles.

The new nation starts off with a two-party coalition government headed by 37-year-old President James Mancham,

who had been prime minister. He retains control of foreign affairs, defense, and the small police force.

Mancham founded the dominant Seychelles Democratic Party in 1964; it mostly represents the interests of the country's established groups, especially its "first families."

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Mancham has demonstrated considerable political skill, proving himself particularly adept at pre-empting popular issues from his political opponents.

The head of the junior party in the coalition, 40-year-old France Albert Rene, is the new prime minister. As opposition leader before the coalition was formed last year, Rene forced the pace of independence. His party, the Seychelles People's United Party, has strong labor support and is leftist in orientation.

Most of the people of the Seychelles are engaged in subsistence farming and fishing, but the country does export limited amounts of cinnamon, copra, and vanilla. Although soil and climatic conditions favor the production of a variety of crops, the country still must import much of its food. Mancham hopes to expand tourism, the islands' main industry since the first airport opened in 1971.

Officially Friends with All

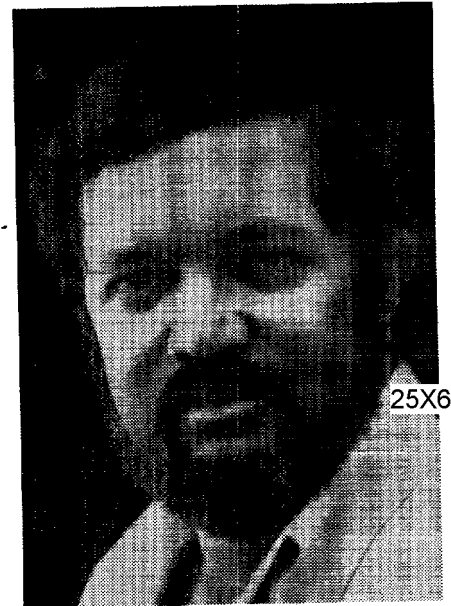
Mancham says officially that he wants the Seychelles, which this week became the 48th member of the Organization of African Unity, to be friendly with all. He will probably adopt a policy of nonalignment and voice support for the Indian Ocean zone-of-peace concept.

He has, however, been generally pro-Western and agreed in the independence accord that "hostile powers" would not be allowed to use the

archipelago. He has privately said he would prefer a US to a Soviet presence in the Indian Ocean.

The Seychelles will maintain close ties with the UK. It will become a member of the Commonwealth and will receive considerable British aid, including budgetary support and technical assistance.

The new government also hopes to retain its links with Paris. France once ruled the islands, and French cultural influence is still strong, especially among the numerically dominant Creoles.



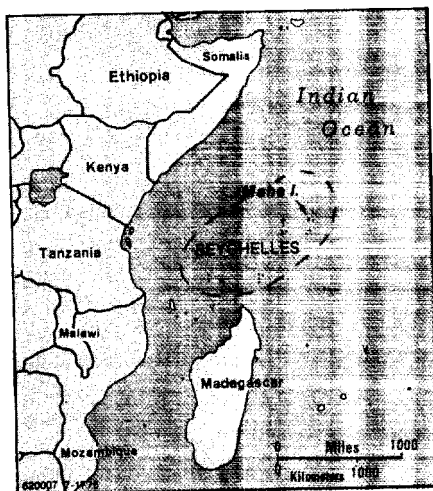
President Mancham

activists, who staged violent demonstrations.

Despite their differences, Mancham and Rene agreed at constitutional talks in London last year to an interim constitution and to the formation of a coalition cabinet of eight members from the Democratic Party and four from Rene's group. They also agreed that each party would name five new members to the legislature. Mancham apparently made the concessions to avert a walk-out by Rene that might have delayed independence.

Both parties have agreed to continue the coalition and not to hold elections until 1979. Old animosities between Mancham and Rene and their parties could easily be resurrected, however. Mancham reportedly continues to distrust Rene, whom he sees as eager to move into the presidency. Mancham may also be concerned about the past proclivity of Rene's party for violence.

Rene and other leaders of the People's United Party, for their part, are probably not reconciled to their minority role. They may push for a greater voice in government or for early elections.



US naval ships have visited the capital, and a few US Peace Corps volunteers assist in educational and agricultural projects. A US consulate was opened in May.

Both the Soviets and the Chinese will probably try to gain influence in the Seychelles by providing limited financial or technical assistance and establishing small diplomatic missions.

Seychelles officials have visited Moscow and Peking, and a Soviet delegation has visited the islands. Mancham is likely to remain wary of the Soviets because of support they have provided to Rene's party.

Domestic Scene

The drive for independence gained momentum in 1971, when Rene aggressively took up the cause with a political assist from the OAU. Mancham and his party had advocated continued crown colony status, but came out in favor of independence just before the 1974 elections.

In the elections, Mancham's Democratic Party received 52 percent of the vote, but won 13 of the 15 seats in the legislative assembly. Rene's People's United Party won over 47 percent of the popular vote, but lost three of its five seats. The incongruous result created considerable resentment among opposition

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